Since 1857

Gresham House

Specialist asset management

GRESHAM HOUSE STRATEGIC PLC

INTERIM RESULTS

For the six months to 30 September 2019

Gresham House Strategic plc (GHS or the Company) invests in UK smaller public companies, applying private equity techniques and due diligence alongside a value investment philosophy to construct a focused portfolio expected to be comprised of 10-15 companies.

Strategic Public Equity

A private equity approach to quoted companies

The Investment Manager, Gresham House Asset Management Ltd (Gresham House, GHAM, or Investment Manager), aims for a high level of engagement with investee company stakeholders, including management, shareholders, customers, suppliers and competitors, with the aim of identifying market pricing inefficiencies and supporting a clear equity value creation plan and targeting above market returns over the longer term.

IN THIS REPORT

HIGHLIGHTS

FINANCIAL HIGHLIGHTS:

- Strong share price performance, with share price rising 10.3% in the period
- Discount narrowing from 22.9% to 14.4% in the period
- 15% increase in the proposed interim dividend
- NAV Total Return of 40.0% since inception[1] - outperforming comparator indices

INVESTMENT MANAGEMENT HIGHLIGHTS:

- Consolidation of the strong NAV performance of FY19 against volatile market conditions, NAV Total Return 0.3% vs 0.2% FTSE Small Cap Total Return, and NAV up a further 5.8% post-period end to 15 November 2019
- Further significantly profitable realisation of 1.3m IMImobile shares, generating a 21.7% IRR and 1.98x Money Multiple
- Two new strategic investments in H1 - £2.3m equity investment into Pressure Technologies and £2.1m Convertible Loan Note (CLN) into Lakes Distillery
- Further portfolio re-balancing progress within the period with five investments partially or fully exited, including three underperformers
- Development of the team capacity and capability through the hire of Richard Staveley, an experienced specialist small-cap manager
- Operational support and turnaround efforts in a number of under-performing investments

POST-PERIOD END HIGHLIGHTS:

- Share price rising a further 11.7%[2] with discount narrowing to 9.8%[2]
- Strong performance from Augean in particular, has helped grow NAV; NAV per share rising 5.8% between 30 September and 15 November

[1] From 14 August 2015, the date of the first NAV publication after GHAM became Investment Manager, to 15 November 2019

[2] From 30 September 2019 to 15 November 2019

CHAIRMAN'S STATEMENT

POSITIVE ABSOLUTE AND RELATIVE RETURNS AMIDST AN UNCERTAIN BACKDROP

DAVID POTTER CHAIRMAN

Dear Shareholder,

I am pleased to report a satisfactory start to the year, despite the rising uncertainty around Brexit during the period. As a Board, we hope that 2020 will bring greater stability for UK stock markets generally, and specifically the small-cap sector in which GHS invests. Our Investment Manager continues to believe both are undervalued and stand to benefit from a meaningful re-rating if and when the Brexit uncertainty is resolved.

The NAV fell modestly in the six months from 1258.6p to 1251.4p, with a strong performance in the quarter to the end of June being reversed in the second quarter of the financial year. Together with the 11.1p dividend paid in the period, NAV Total Return was marginally positive, up 0.3%. The share price rose 10% from 970p to 1070p, with the discount narrowing from 22.9% to 14.4% and since the year end the discount has fallen further to 9.8%[3].

The FTSE Small Cap Index fell 2.4% during the period, reflecting both political and economic uncertainty, impacting a number of smaller company funds' performance. The publicity surrounding Neil Woodford undoubtedly also had a wider impact on the smaller end of the market as attention focused on liquidity. In this context, the performance was therefore reassuring.

The Board remains of the opinion that if the discount is substantially diminished, this will be a key facilitating factor to raising new funds and will enable us to start building the Company to a more significant size. This will then have two key benefits. Firstly, it will widen the range and size of companies in which we can invest and secondly it will help to lower our cost ratios. A major building block for this was the announcement of a joint venture with Aberdeen Standard Investments (ASI) to promote the Strategic Public Equity (SPE) strategy. This endorsement of our investment strategy from such a large institution is extremely encouraging. Our aim is to position SPE as an asset class that all institutions, wealth managers and individuals should consider as part of the asset allocation in their portfolios.

In line with our previous guidance to increase dividends for the next two years by 15% per annum, the Board proposes to pay an interim dividend of 10.1p per share to shareholders (payable on 3 January 2020 to shareholders on the register on 6 December 2019). This signifies our confidence in the SPE strategy and its ability to produce sustainable outperformance.

You will see in the Investment Manager's report further detail on the individual investments and their performance.

[3] As at 15 November 2019

CHAIRMAN'S STATEMENT (CONTINUED)

The Investment Management industry has been in the spotlight as negative headlines have surrounded the funds managed by Woodford Investment Management. Our structure, as a closed-end investment company with weekly valuations of our public company holdings, should give our shareholders transparency. We have 17.4% of the Company invested in unquoted, convertible debt instruments with a weighted average cash yield of 7.8% and an average remaining maturity of 26 months. It is inherent in our investment strategy that our major positions, typically representing 5-15% of the voting rights in a quoted company, are only taken after detailed due diligence and review by the Investment Manager, the Investment Committee and the Board. The latter two bodies have members acting in a non-executive or advisory capacity with very extensive experience. All members of the Board are independent from by the Investment Manager. We believe that this close and experienced review of possible investments offers a degree of protection to shareholders.

Our focus on smaller and higher risk companies means things can sometimes go wrong. In these circumstances, the Investment Manager will generally engage closely with the company, in an effort to recover value, but in some cases will conclude that it is better to exit. In the period we exited from three under-performing investments (Quarto, Prophotonix and Hydrodec).

Our Investment Manager, Gresham House has continued to grow its assets under management. Its acquisition of the Livingbridge VC LLP (Livingbridge VC) funds 12 months ago substantially expanded the Investment Manager's internal resource and expertise in smaller companies and complemented its portfolio management resources. In that context, we are also delighted that Richard Staveley has recently joined Gresham House's SPE management team. Richard, a former founding partner of River & Mercantile and former Majedie fund manager, has over 20 years' investment management experience. We are pleased the he will take an increasingly central role in managing the GHS portfolio, working with the rest of the team.

I would like to thank the rest of the Board and the team at Gresham House for their collaborative work in the last six months and for the ongoing support of all our other stakeholders.

DAVID POTTER
CHAIRMAN, GRESHAM HOUSE STRATEGIC PLC

25 November 2019

INVESTMENT MANAGER'S REPORT

INTRODUCTION

We are pleased to be able to report to shareholders on what has been a productive first half of the financial year for Gresham House Strategic plc. Supported by the Gresham House platform and wider resource, the Investment Team has delivered on a number of operational and investment initiatives in line with our investment philosophy both in the first half of the year and post-period end. We are pleased to deliver the relatively strong shareholder returns for our investors in the period as GHS shares increased 10.3% (11.4% on a total return basis) vs a FTSE Small Cap Total Return of 0.2%. The positive share price performance continued through October and into November as the share price gained another 11.6% between the end of September and 15 November (63.7% total shareholder return since inception). The NAV however had a much more muted six months, only just registering a positive movement for the period (+0.3% NAV Total Return), though this was against a tough operating environment for our investments (see market commentary) and a strong preceding 12 months.

We believe the performance of the Company's shares reflects operational and performance objectives achieved over the past 18 months and growing interest in our SPE investment philosophy. Some of the more recent highlights for the period include:

- Strong share price performance, with share price rising 10.3% in the period and a further 11.7% post-period end[4], with discount narrowing to 9.8%[4]
- 15% increase in the proposed interim dividend
- NAV Total Return of 40.0% since inception[5] - outperforming comparator indices
- Consolidation of the strong NAV performance of FY19 against volatile market conditions, NAV Total Return 0.3% vs 0.2% FTSE Small Cap Total Return, and NAV up a further 5.8%[4] post-period end
- Further significantly profitable realisation of 1.3m IMImobile shares, generating a 21.7% IRR and 1.98x Money Multiple - £2.1m realised profit
- Two new strategic investments in H1 - £2.3m equity investment into Pressure Technologies and £2.1m Convertible Loan Note (CLN) into Lakes Distillery
- Further portfolio re-balancing progress within the period with five investments partially or fully exited
- Development of the team capacity and capability through the hire of Richard Staveley (formerly Majedie Asset Management and River & Mercantile Asset Management)
- Material operational support and turnaround efforts in a number of under-performing investments as we seek to recover value for our shareholders

One year on from the successful acquisition of Livingbridge VC, we are developing the team capacity and capability through integrating their resources with SPE which will bring benefits of access to more resource to GHS. Graham Bird will step back from front line SPE activity to focus on corporate advisory aspects of the strategy with the intention of direct involvement with investee companies in future.

Richard Staveley (formerly Majedie Asset Management and River & Mercantile Asset Management) has joined as Fund Manager and will be responsible for driving the SPE process with Tony Dalwood's support as Chairman of the Investment Committee. Graham will continue to support the SPE strategy in an advisory capacity and will remain on the Investment Committee.

In this Investment Manager's report, we write to shareholders about our high-level views of the UK economy and equity markets, summarise the NAV performance, portfolio and major dealing activity in the first half of the financial year. The report ends with our outlook for the rest of the year.

MARKET COMMENTARY

It has been a turbulent six months for UK equity markets facing both domestic and global headwinds, with continued and increasing political uncertainty in the UK, exacerbated by negative headlines emanating from the Woodford saga with a global economic backdrop of concerns over trade-wars and potential economic slowdown.

1. Increasing political uncertainty

The initial Brexit delay from March 2019 to October 2019 was designed to avoid the uncertainty of a no-deal and give parliament time to produce a co-ordinated outcome for the country. However, rather than stabilise the situation, the summer has ended up providing a marked increase in political and economic uncertainty. We have witnessed a change of Prime Minister, Supreme Court rulings, a revised but rejected Brexit deal and now a snap general election. The lack of clarity on the outcome of these processes makes it difficult for both investors and operating companies to make investment decisions. This has been a key ingredient to the state of paralysis that both the UK economy and markets currently find themselves in. Given the context of all-time highs in US equities, global asset-allocators have continued to reduce UK equities exposure to very low levels vs history.

2. The fall-out from the Woodford saga

The UK fund management industry was dominated by one story over the summer: the fallout from the crisis at Woodford Investment Management. Whilst we do not need to regurgitate the story here, the collapse of one of the UK's most renowned investment managers did little to help investor confidence in UK equities or their managers, in particular at the smaller, less liquid end of the market. We reiterate the points made in the Chairman's statement that our structure and extensive due diligence process leaves us well-

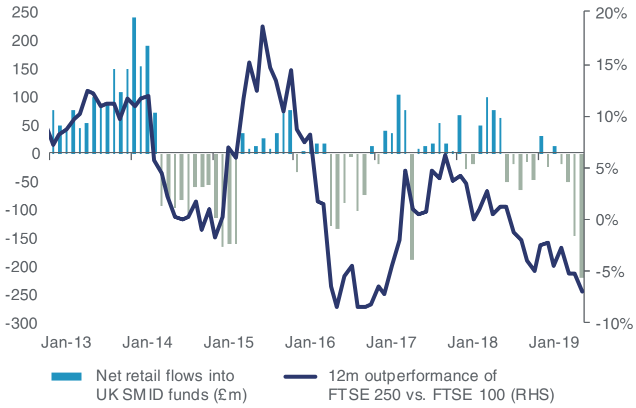
[4] From 30 September 2019 to 15 November 2019
[5] From 14 August 2015, the date of the first NAV publication after GHAM became Investment Manager, to 15 November 2019

INVESTMENT MANAGER'S REPORT (CONTINUED)

positioned for any regulatory response. We would make it very clear that our 'value' conscious approach to investment and our bias towards proven, cash generative business models results in most of the 'small' and early-stage, often unprofitable, companies typically held by Woodford not meeting our strategy criteria or style.

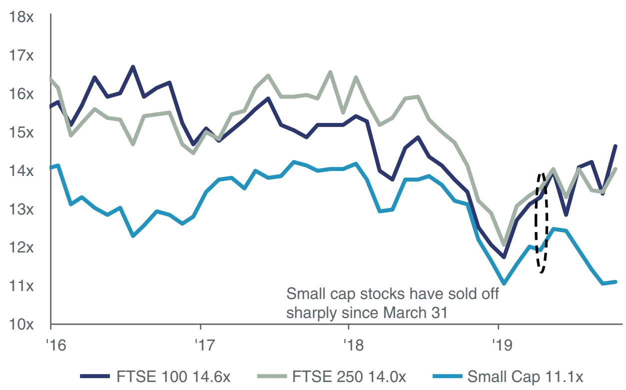
As detailed in Chart 1, these two factors drove accelerating outflows from UK SMID funds over the summer at the fastest rate for five years, putting pressure on valuations (as funds sold to meet redemptions) and at the same time drying up liquidity and buying interest. This allowed equities to drift down further indiscriminately on 'no news', a phenomenon neatly depicted below in Chart 2, where small caps (the most illiquid of equities) have de-rated against their larger peers.

Chart 1 - Accelerating outflows



Source: Liberum, 7 October 2019

Chart 2 - The small-cap discount has widened

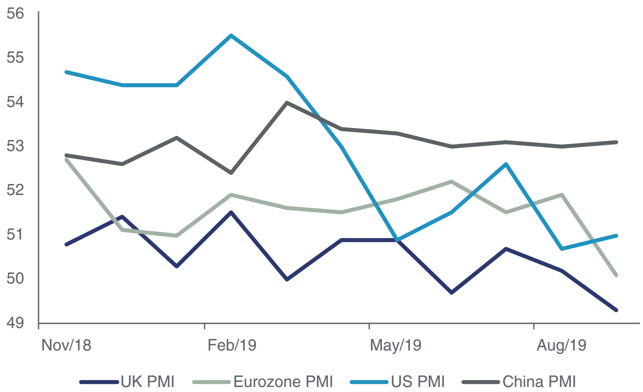


Source: Liberum, 7 October 2019

3. The global backdrop

As Chart 3 depicts, the global backdrop to these UK specific issues has been souring economic data - especially industrial. As the comments in the Q2 Factsheet on the gold to copper ratio suggested, both domestic and international economic indicators have declined into the autumn and the drivers of these are multi-faceted. The US faces the ongoing uncertainty of an unsettled trade war and growing impacts of tariffs which are now starting to have a real impact. It looks increasingly as if the US presidential race next year will be another divisive battle, with Trump likely to face an equally polarising candidate from the Democrat party. The other engine of the global economy, China, also impacted by the trade war, has already been slowing down as the gradual transformation of their economy, from being dependent on infrastructure build and high levels of credit support evolves. The Eurozone, beset by long-term structural issues, is also struggling as Germany's strong export base finds weaker end-market conditions: "Germany's central bank warning the country's economy may have shrunk for its second consecutive three-month period" in October 2019[6]. Significant monetary policy support looks increasingly like 'business as usual' rather than temporary. The International Monetary Fund (IMF) has cut its global growth forecast by 0.3% in the last six months and now expects global growth to fall to 3% in 2019, its slowest rate since the Global Financial Crisis. The common theme here is that near-term visibility is worsening, making it more difficult for companies to make decisions, illustrated by the weaker PMI data found in Chart 3. The inversion of the yield curve, a regular, if not early and approximate indicator of near-term recessionary conditions, certainly highlights bond market positioning given this economic backdrop.

Chart 3 - Global PMI data



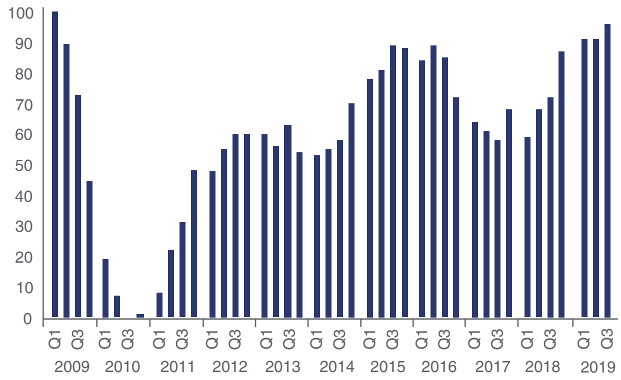
Source: Markit/Bloomberg as at 4 November 2019

The UK and global issues described in this report have, of course, impacted company earnings and we are on track for the weakest year of the current bull market for UK corporate earnings. The number of profit warnings we flagged in the Q3 factsheet has worsened; UK companies have now issued 235 warnings in the first nine months of 2019, the highest third-quarter sub-total since 2008 and the EY profit warning stress index is at a score of 96, a level not seen since the first quarter of 2009.[7]

[6] Financial Times, Germany may have entered recession in September, says central bank, Martin Arnold 21 October 2019
[7] On the brink, EY quarterly analysis of UK profit warnings Q3 2019

INVESTMENT MANAGER'S REPORT (CONTINUED)

Chart 4 - EY Profit Warning Stress Index hits 96

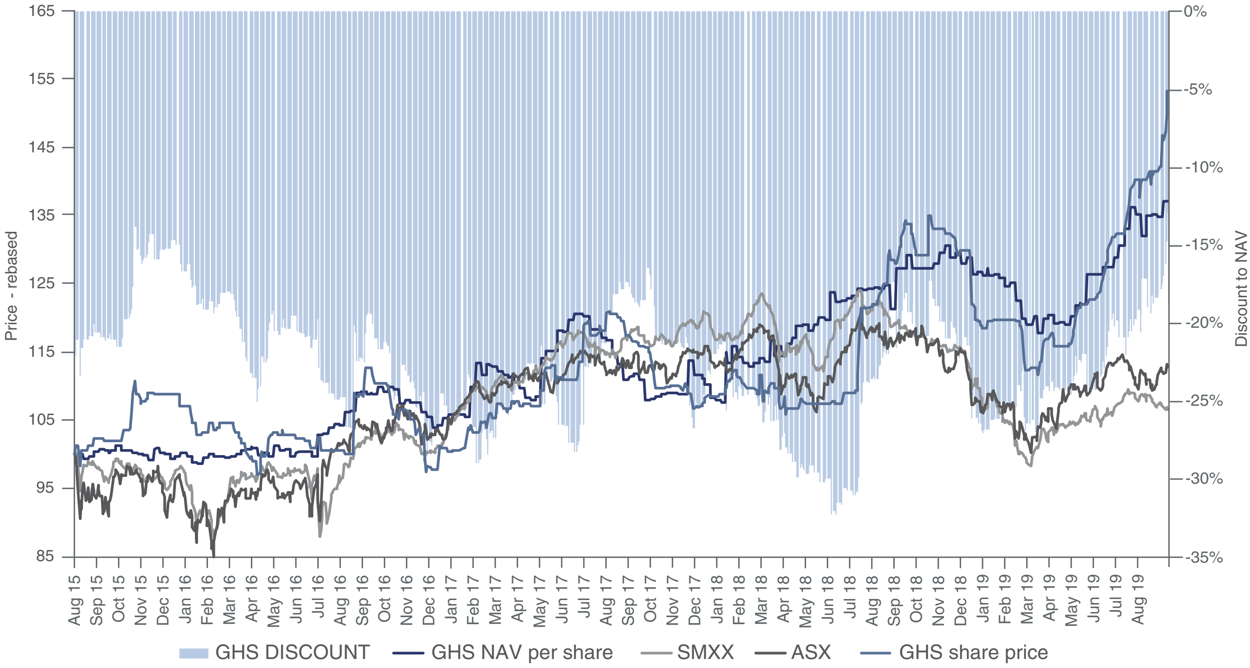


Source: EY quarterly analysis of UK profit warnings Q3 2019

This market commentary is an important context to the portfolio performance described below. While positive for the six months to 30 September 2019, the performance was weaker than the performance of the preceding 24 months. A protracted period of domestic and global uncertainty is affecting decision making and demand in UK businesses and households - as reflected in the 30% of UK profit warnings, citing delayed or cancelled contracts. As a result, companies and markets alike have had a difficult six months. The sharp rise in profit warnings citing accounting issues is a further worrying sign and a signal that the economy is cooling. This compares with a previous average of 3%. It is worth considering that these sorts of problems often come to the fore at times of increasing economic stress, with the current peak exceeding the previous high of 9% of accounting-related warnings issued in 2007. Many of the issues described here are on-going and will run into 2020, underlining our belief in the need for cautious analysis of investment opportunities focusing on value, underpinned by fundamentals, downside scenario testing, cash generation, strength of balance sheets and a cynical eye on the promise of above average growth by small company management teams.

4. Portfolio performance

Chart 5 - Relative performance from inception



Source: Bloomberg, as at 30 September 2019

Performance (all indices are excluding investment trusts)	H1 2019 (Mar - Sept)	Q2 2019 (Mar - Jun)	Q3 2019 (Jul - Sep)	From inception (Aug 2015 - Sep 2019)
Share price Total Return	11.4%	20.1%	(7.2%)	46.5%
GHS NAV Total Return	0.3%	6.1%	(5.5%)	32.2%
FTSE Small Cap Total Return	(0.3%)	0.9%	(1.2%)	16.6%
FTSE All Share Total Return	4.5%	3.2%	1.2%	32.4%
Relative performance				
vs FTSE Small Cap Total Return	0.6%	5.2%	(4.3%)	15.6%
vs FTSE All Share Total Return	(4.2%)	2.9%	(6.7%)	(0.2%)

INVESTMENT MANAGER'S REPORT (CONTINUED)

The NAV Total Return per share rose 0.3% in the half year to 30 September 2019, taking into account the 11.1p dividend paid in September. Performance was marginally ahead of the FTSE Small Cap Total Return Index, which fell 0.3% in the same period. From inception in August 2015 to the end of September, NAV Total Return has been 32.3%, outperforming the FTSE Small Cap Total Return Index (excluding investment trusts) by 15.6% in the same period.

The H1 performance reflected two distinct quarters with a strong performance in the quarter to June 2019 being reversed by a weaker performance in the three months to the end of September 2019. The share price performed better, rising 11.4% in the half year on a total return basis with the discount narrowing from 22.9% to 14.5% at the end of the period.

Since the period end, a strong performance from Augean in particular, has helped a modest recovery, with NAV per share rising 5.8% between 30 September and 15 November. More pleasingly, the discount has narrowed further leading to a further 11.7% rise in the share price in the same period.

The Company commenced a tactical buy-back of shares in October which has contributed towards the narrower discount. As at 15 November the Company has bought back 6,014 shares at an average price of 1151p per share.

We currently hold investments in 14 UK companies (12 >2.0% NAV) with 12.1% of the portfolio in cash and other working capital items.

Holding	£m	Shareholding in company %	Portfolio NAV %
Augean plc	8.0	7.0%	17.9%
IMImobile plc	7.5	3.1%	16.9%
Northbridge Industrial Services plc	6.4	11.0%	14.5%
Be Heard Group plc	2.8	10.6%	6.2%
Pressure Technologies plc	2.7	15.1%	6.1%
The Lakes Distillery Company plc	2.2	n/a	4.9%
MJ Hudson Group Holdings Limited	2.0	1.0%	4.5%
Brand Architeks Group plc	1.6	5.4%	3.6%
Escape Hunt (Dorcaster plc)	1.5	11.6%	3.4%
Universe Group plc	1.4	11.6%	3.2%
Others	3.0		6.7%
Cash and other working capital items	5.4		12.1%
Total NAV	44.5		100.0%

INVESTMENT ACTIVITY

Since the start of the Company's financial year, we have invested £5.6m cash whilst realising £7.6m from sales/redemptions of investments.

Pressure Technologies investment

In April, we invested a further £1.5m into **Pressure Technologies**, following our initial investment of £0.8m made in March 2019. Pressure Technologies is a specialist niche engineering business comprised of two key divisions. Precision Machined Components (PMC) supplies key metallic engineered components that are destined for extreme or hostile environments in mission critical functions, such as the oil and gas and extractive industries. Chesterfield Specialist Cylinders (CSC) is a leader in the design, manufacture and maintenance of large-scale high-pressure cylinders for military, marine and oil and gas industries. The PMC division came under significant pressure in the oil and gas downturn between 2014 and 2018. The group had significant debt and its attempts to diversify into alternative energy were struggling. The company had been on our watchlist for some time.

New CEO, Chris Walters joined in September 2018 and commenced the implementation of a revised strategy to dispose of the loss-making alternative energy business, reducing debt in the process, and to rationalise the core businesses PMC and CSC with a goal of reinvigorating organic growth. We have developed a good relationship with the management team and are supporting them in delivering strategic change in the business which, we believe, has the potential to deliver significant shareholder value.

Lakes Distillery investment

In June, we invested £2.1m into **Lakes Distillery** by means of a secured convertible loan note. The Lakes Distillery is a recently established, leading English distillery with a vision to create one of the prime single malt whiskies in the world. The company was formed in 2011 and commenced operations in 2014. It has an impressive facility in the Lake District with a number of income streams to support the growth of its brands. With its headquarters in Newcastle, the distillery is based in a restored Victorian dairy farm, set on the banks of the River Derwent in the English Lake District National Park, a Unesco World Heritage Site. The company has already established a UK and international sales base with gin, vodka and blended whisky ahead of its largest release of a premium single malt whisky product in 2019. It runs a visitor centre at the distillery which hosts over 100,000 visitors per annum. The investment represents pre-IPO funding, providing primary capital to Lakes Distillery to support their growth ambitions. Lakes Distillery had considered floating on the London Stock Exchange at the end of 2018, but the stock market conditions deteriorated leading to a number of cancelled IPOs, including Lakes Distillery. Our investment, which formed part of a £3.75m capital injection pays 8% interest per annum in cash and a further 12% payment in kind, rolled up quarterly. The combined return of 20% per annum comfortably exceeds our investment return target. The loan converts to equity automatically on an IPO of the business at the IPO price. If the company is not floated within three years, the loan plus rolled up interest are repayable or can be extended on pre-agreed terms. The investment was to fund capital investment and working capital as the company builds its stock of ageing whisky.

INVESTMENT MANAGER'S REPORT (CONTINUED)

Other investments

Follow on investments were also made in a number of existing investments, including **Escape Hunt**, where we followed our pro-rata investment in a £4m total fund raise by the company in June, whilst also making modest top-up investments in **Universe Group**, **Northbridge**, **Centaur** and **Brand Architekts**.

Divestments

During the period we sold down further tranches of **IMImobile** shares, realising £4.2m cash in total. The sales followed a re-investment into IMImobile in February at 220p per share, after the share price had fallen more than 40% from its high in the Autumn for no discernible reason connected to the company's performance. The share price partially recovered in March and continued to perform strongly into Q2. Our disposal was motivated by portfolio construction considerations and we continue to see a positive outlook for the company.

A further £2.0m cash consideration came from the completion of the takeover of **Tax Systems** in early April, which was discussed in our full year results, and £0.7m was generated from a partial redemption of **MJ Hudson Group** loan notes.

We also took the decision to exit entirely from three under-performing investments, **Quarto**, **Prophotonix** and **Hydrodec** which, together, accounted for a further £0.7m proceeds.

Top contributors to returns:

Investment	Total Contribution (£m)	Uplift to NAV
IMImobile plc	1.2	2.8%
Augean plc	1.1	2.4%
Pressure Technologies plc	0.4	0.8%
MJ Hudson Group Holdings Limited	0.1	0.1%

The share price of **IMImobile** rose 12.4% from 290p at the end of March to 326p at the end of September. Together with sales in the period, IMImobile contributed £1.2m to NAV, or 2.8%. IMImobile published its full year results to 31 March 2019 in June. Results confirmed strong progress in both gross profit (up 23%) and adjusted EBITDA (up 35%). The company is at a very exciting stage of development with technology changes creating momentum in the customer communications sector, driving automation and the use of digital channels. We believe IMImobile is ideally placed to capitalise on this momentum and has an opportunity to use its UK market leading position to play a leading role in the market globally. In July, IMImobile announced a significant acquisition of 3CInteractive Corp in the US, for a total consideration of $53.2m. The consideration was funded with debt, cash and c.£20m from a placing of new shares. The acquisition, which is expected to be immediately earnings accretive, significantly advances the group's position and prospects in the US and was well received by the market. Importantly, the acquisition adds complementary product capabilities and a blue-chip customer base providing opportunities to cross and upsell IMImobile's existing products. Synergistic opportunities have also been identified and we believe the acquisition, coupled with the underlying momentum within IMImobile's existing business, provide a strong base for further shareholder value creation.

Augean's share price rose 16% from 95p to 110p in the period, contributing £1.1m to NAV, or 2.4%. In May, the company published a trading statement in which it stated that its trading performance in the first quarter of the year was materially ahead of market expectations, benefitting from higher landfill volumes, increased profits from radioactive waste and strong performance of both the treatment and North Sea businesses. The interim results to June, published in July confirmed that the strong performance had continued into Q2. Notwithstanding the strong operating performance, the share price subsequently fell in August when it was announced that HMRC had issued the company with a notice of intended penalty of £4.6m relating to the ongoing landfill tax dispute. Whilst there are still certain uncertainties related to the HMRC dispute, we believe the company's significant improvement in operating performance and cash generation mean that the outcome can be managed, whether the full HMRC claim becomes payable or not, and that there is significant value in the company. Since the period end, the company has again announced that performance is running ahead of expectations and the share price has risen further.

Pressure Technologies share price rose to 97p in the period, up 17% compared to our average in-price, contributing £0.4m to NAV, or 0.8%. Interim results to March 2019, published in June confirmed strong revenue and gross profit growth (59% and 73% respectively) and an adjusted operating profit of £1.3m, compared to a loss of £0.1m in the comparable prior period, supporting the share price.

Our investment in **MJ Hudson Group** comprises a relatively small equity investment and a CLN, both of which are pre-IPO investments. The CLN pays 7% cash interest per annum, plus effectively rolling up 13% interest per annum. Our equity investment was written up by 9% following a recent funding round in which new, third party institutions participated. Approximately 33% of our investment in CLNs was redeemed in the period, together with rolled up interest. The combination of CLN roll-up and equity appreciation contributed £0.1m to NAV.

There were no other significant positive contributors to NAV in the period.

INVESTMENT MANAGER'S REPORT (CONTINUED)

Top detractors from returns:

Investment	Total Contribution (£m)	Detraction
Hydrodec	(0.7)	(1.5%)
Be Heard Group plc	(0.6)	(1.3%)
Centaur Media	(0.4)	(0.9%)
Escape Hunt	(0.3)	(0.7%)
PCF Group	(0.2)	(0.5%)

A number of our investments experienced declines in their share prices during the period, which was not uncommon amongst smaller companies in general, where concerns about Brexit and the impact of Woodford have undoubtedly been having an impact, particularly amongst the smallest companies. A number of these share price falls were not related to any specific news on the company in question.

However, **Hydrodec's** share price fell very significantly after it announced that its revenue and earnings will be substantially behind expectations and that CEO, David Dinwoodie, would step down. The company is part way through its two-year turnaround but continues to struggle to secure feedstock supplies which means the plant is unable to operate at capacity. In addition, feedstock prices have risen, adversely impacting margins. It is clear from the statement that the company is in a tight financial position, with the business still consuming cash. Whilst positive progress has been made on other strategic initiatives, such as; negotiations with utilities, development of the company's unique ability to generate carbon credits from its process and the sale of its Australian plant, the difficulties in securing feedstock and the associated financial stress represent a breakdown of our original investment thesis. As a result, we sold our entire holding in Hydrodec, realising a loss of £0.7m, representing 1.5% of NAV.

Be Heard experienced a slow, but steady decline in its share price throughout Q3, notwithstanding positive statements in May in which the company confirmed that it was trading ahead of budget. The share price fell 40% from 1.15p to 0.7p generating a £0.6m negative impact on NAV, or 1.3%. Trading volumes in the shares have been low but have contributed to steady downward pressure on the share price. Whilst this has been disappointing, the interim results published in September confirmed continued organic growth with improved operating margins and the company ended the half year with net cash (excluding the convertible loan note and deferred consideration for previous acquisitions). The board also confirmed that it remained confident that the full-year results would be in line with expectations. We continue to have a close dialogue and engagement with the company with a view to supporting the recovery of value.

Centaur Media's share price fell 23% from 53p to 41p, leading to £0.4m negative impact on NAV, or 0.9%. The company has gone through substantial change in the period. It completed its disposal programme which has resulted in a reduction in the number of media titles in its portfolio from 28 to 7 and realised £16.8m net proceeds. There were also changes at board level, with chairman Neil Johnson standing down in July, and CEO Andria Vidler announcing her departure in September. Former CFO, Swag Mukerji has been elevated to CEO. Since the period end, the company has paid a special dividend of £5m and has announced a new strategy, MAP22, which aims to improve operating margins to 20% by 2022. The company has been a significant dividend payer in the past, but with a smaller business and growth ambitions, the dividend policy has been changed. We believe this has contributed to the weaker share price as 'income investors' have begun to rotate out of the shares. Under Swag's leadership, we continue to believe there is significant potential in Centaur and that the share price weakness will prove to be temporary.

Escape Hunt's share price fell 16% from 57p to 48p, leading to a £0.3m decline in NAV, or 0.7%. Interim results in September confirmed good growth in the UK owner operated revenue and that progress has continued, with August being a record month for performance. They also announced completion of a significant franchising deal with PCH in the US, which has the potential to provide material expansion in that market. Management's challenge is to execute on the growth plan through the timely negotiation of new site locations which go on to generate strong returns.

Finally, **PCF Group's** share price fell 19% from 32p to 26p, leading to a £0.2m decline in NAV, or 0.5%. The fall appears to be impacted by wider concerns on UK consumer and SME levels of debt and the outlook for the economy. Subsequent to the period end, the company published a strong, positive trading statement confirming continued progress. The share price rose sharply following the confidence inducing announcement.

5. Outlook

Given the continued uncertain economic and political outlook, there are many reasons to remain cautious in relation to investment activity. However, we believe GHS is well-positioned to perform well for several reasons:

- Our value-oriented approach has produced a portfolio which is attractively valued on a relative and absolute basis and we continue to see substantial upside within individual investee companies as well as the portfolio as a whole.
- The biggest determinant of future returns is the entry valuation. UK equities are very cheap relative to history and other international markets. Within the UK market, the smaller company discount has widened and is now wider than it has been for many years. Our approach which invests predominantly in UK smaller companies is set to capitalise on the opportunities these metrics offer.

INVESTMENT MANAGER'S REPORT (CONTINUED)

- Structural factors, such as the introduction of MiFID II in 2018 have, in our view, exacerbated inefficiencies at the smaller end of the market, providing a greater number of opportunities for discerning investors to find hidden value. These inefficiencies are, in our view, persisting for longer meaning we have more time to perform due diligence and execute on investment ideas.
- Fallout from the Woodford crisis is likely to lead to many open-ended funds taking a more cautious approach to smaller companies and illiquidity. This may lead to technical factors which create opportunities to acquire attractive assets at appealing prices from market participants selling for non-investment reasons.
- Gresham House has recently invested in resource and the capability to take advantage of the market conditions and we believe the team is well-set to deliver on the Company's investment objectives.

We therefore continue to view the opportunity set and outlook for GHS with cautious optimism.

GRAHAM BIRD AND RICHARD STAVELEY

INVESTMENT MANAGERS, GRESHAM HOUSE ASSET MANAGEMENT LTD

25 November 2019

UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

	Notes	Six months to 30 September 2019 £'000 Unaudited	Six months to 30 September 2018 £'000 Unaudited	Year to 31 March 2019 £'000 Audited
Gains on Investments	5	**374**	4,945	6,102
Revenue				
Bank interest income		**5**	4	11
Loan note interest income		**395**	308	634
Portfolio dividend income		**89**	209	225
		489	521	870
Administrative expenses				
Salaries and other staff costs		**(63)**	(67)	(129)
Performance fee		**–**	(1,645)	(2,333)
Investment management fees		**(427)**	(401)	(795)
Other costs		**(231)**	(265)	(462)
Total administrative expenses		**(721)**	(2,378)	(3,719)
Profit before taxation		**142**	3,088	3,253
Taxation	7	**–**	–	–
Withholding tax expense		**–**	–	–
Profit after taxation for the financial period/year		**142**	3,088	3,253
Attributable to:				
– Equity shareholders of the Company		**142**	3,088	3,253
Basic and Diluted earnings per Ordinary Share for profit from continuing operations and for profit for the period/year (pence)	8	**3.98p**	86.00p	91.06p

There are no components of other comprehensive income for the current period (September 2018: £Nil, March 2019: £Nil).

UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2019

	Note	30 September 2019 £'000 Unaudited	30 September 2018 £'000 Unaudited	31 March 2019 £'000 Audited
Non-current assets				
Investments at fair value through profit or loss	5	**39,128**	32,938	40,718
		39,128	32,938	40,718
Current assets				
Trade and other receivables		**191**	166	106
Cash and cash equivalents		**5,329**	13,868	6,728
		5,520	14,034	6,834
Total assets		**44,648**	46,972	47,552
Current liabilities				
Trade and other payables		**(155)**	(435)	(473)
Performance fee payable		**–**	(1,645)	(2,333)
Total liabilities		**(155)**	(2,080)	(2,806)
Net current assets		**5,365**	11,954	4,028
Net assets		**44,493**	44,892	44,746
Equity attributable to the shareholders of the parent				
Issued capital		**1,788**	1,788	1,788
Share premium		**13,050**	13,050	13,050
Revenue reserve		**18,818**	19,217	19,071
Capital redemption reserve		**10,837**	10,837	10,837
Total equity due to Ordinary shareholders		**44,493**	44,892	44,746
Net asset value per Ordinary Share		**1,251.4p**	1,262.7p	1,258.6p

	Number '000	Number '000	Number '000
Ordinary Shares in issue	**3,555**	3,555	3,555
Shares in issue for net asset value per share calculation	**3,555**	3,555	3,555

These financial statements were approved and authorised for issue by the Board of Directors on 25 November 2019.

Signed on behalf of the Board of Directors.

DAVID POTTER
CHAIRMAN

CHARLES BERRY
DIRECTOR

UNAUDITED CONDENSED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

	Note	Six months to 30 September 2019 £'000 Unaudited	Six months to 30 September 2018 £'000 Unaudited	Year to 31 March 2019 £'000 Audited
Cash flow from operating activities				
Cash flow from operations	a	**(3,050)**	(407)	(686)
Net cash outflow from operating activities		**(3,050)**	(407)	(686)
Cash flows from investing activities				
Purchase of financial investments		**(5,600)**	(3,312)	(10,124)
Sale of financial investments		**7,646**	16,094	16,356
Net cash inflow from investing activities		**2,046**	12,782	6,232
Cash flows from financing activities				
Dividends paid		**(395)**	(613)	(924)
Share buy backs		**–**	(938)	(938)
Net cash outflow from financing activities		**(395)**	(1,551)	(1,862)
Change in cash and cash equivalents		**(1,399)**	10,824	3,684
Opening cash and cash equivalents		**6,728**	3,044	3,044
Closing cash and cash equivalents		**5,329**	13,868	6,728

NOTE

a) Reconciliation of profit for the period to net cash outflow from operations

	£'000	£'000	£'000
Profit before tax	**142**	3,088	3,253
Rolled up interest	**(82)**	(105)	(226)
Gains on investment	**(374)**	(4,945)	(6,102)
Operating results	**(314)**	(1,962)	(3,075)
Change in trade and other receivables	**(85)**	(95)	(35)
Change in trade and other payables	**(2,651)**	1,650	2,424
Net cash outflow from operations	**(3,050)**	(407)	(686)

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

SIX MONTHS TO 30 SEPTEMBER 2018

	D shares £'000	Ordinary Share Capital £'000	Share Premium £'000	Revenue Reserve £'000	Capital Redemption Reserve £'000	Total Equity £'000
Balance at 31 March 2018 (audited)	**10**	**1,827**	**13,060**	**17,670**	**10,788**	**43,355**
Profit and total comprehensive income for the period	–	–	–	3,088	–	3,088
Share buy back	–	(49)	(10)	(928)	49	(938)
Dividends paid	–	–	–	(613)	–	(613)
Balance at 30 September 2018 (unaudited)	**10**	**1,778**	**13,050**	**19,217**	**10,837**	**44,892**

YEAR TO 31 MARCH 2019

	D shares £'000	Ordinary Share Capital £'000	Share Premium £'000	Revenue Reserve £'000	Capital Redemption Reserve £'000	Total Equity £'000
Balance at 31 March 2018 (audited)	**10**	**1,827**	**13,060**	**17,670**	**10,788**	**43,355**
Profit and total comprehensive income for the year	–	–	–	3,253	–	3,253
Share buy back	–	(49)	(10)	(928)	49	(938)
Dividends paid	–	–	–	(924)	–	(924)
Balance at 31 March 2019 (audited)	**10**	**1,778**	**13,050**	**19,071**	**10,837**	**44,746**

SIX MONTHS TO 30 SEPTEMBER 2019

	D shares £'000	Ordinary Share Capital £'000	Share Premium £'000	Revenue Reserve £'000	Capital Redemption Reserve £'000	Total Equity £'000
Balance at 31 March 2019 (audited)	**10**	**1,778**	**13,050**	**19,071**	**10,837**	**44,746**
Income and total comprehensive income for the period	–	–	–	142	–	142
Share buy back	–	–	–	–	–	–
Dividends paid	–	–	–	(395)	–	(395)
Balance at 30 September 2019 (unaudited)	**10**	**1,778**	**13,050**	**18,818**	**10,837**	**44,493**

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Gresham House Strategic plc (the Company) is a company incorporated in the UK and registered in England and Wales (registration number: 3813450). The information set out in these unaudited condensed interim financial statements for the periods ended 30 September 2019 and 30 September 2018 does not constitute statutory accounts as defined in section 435 of Companies Act 2006. Comparative figures for 31 March 2019 are derived from the financial statements for that year. The financial statements for the year ended 31 March 2019 have been delivered to the Registrar of Companies and contain an unqualified audit report and did not contain a statement under emphasis of matter or statements under section 498(2) or (3) of the Companies Act 2006. These unaudited condensed interim financial statements have been prepared in accordance with the AIM rules.

2. BASIS OF ACCOUNTING

The annual financial statements are prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union. The principal accounting policies adopted in the preparation of the financial information in these unaudited condensed interim financial statements are unchanged from those used in the Company's financial statements for the year ended 31 March 2019 and are consistent with those that the Company expects to apply in its financial statements for the year ended 31 March 2020. These unaudited condensed interim financial statements have been prepared based on IFRSs in issue that are effective at the Company's annual reporting date as at 31 March 2019, except as noted below.

These unaudited condensed interim financial statements have been prepared in accordance with IAS 34: Interim Financial Reporting as adopted by the European Union. They do not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 March 2019.

New standards effective in the Period

IFRS 16 "Leases" is effective for accounting periods beginning on or after 1 January 2019.

The adoption of the above standard will have no impact on the Company's reported net assets as the Company does not have any leases.

Changes to the International Private Equity and Venture Capital Valuation (IPEV) guidelines

The IPEV guidelines which are effective for reporting periods on or after 1 January 2019 has been adopted by the Company as described in note 5.

3. ESTIMATES

The preparation of the unaudited condensed interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The valuation of unquoted investments represents the key estimate. Actual results may differ from these estimates.

In preparing these unaudited condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation were the same as those that applied to the Company financial statements as at and for the year ended 31 March 2019.

The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the unaudited condensed interim financial statements are disclosed in note 5 in relation to the valuation of unquoted investments.

4. FINANCIAL RISK MANAGEMENT

The Company's financial risk management objectives and policies are consistent with those disclosed in the Company financial statements as at and for the year ended 31 March 2019.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

5. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Company's investments are valued using the following basis:

(a) Quoted investments are recognised on trading date and valued at the closing bid price at the year end.

(b) Investments considered to be mature are valued according to the Directors' best estimate of the Company's share of that investment's value. This value is calculated in accordance with IPEV guidelines and industry norms which includes calculations based on appropriate earnings or sales multiples.

The IPEV guidelines which are effective for reporting periods on or after 1 January 2019 has been adopted by the Company. The core principles of the new IPEV guidelines are:

(i) Price of a recent investment removed as a valuation technique; and

(ii) Valuing debt investment is expanded.

The movements in the investments at fair value through profit or loss are as follows:

	Value at 31 March 2019 £'000	Additions £'000	Disposal Proceeds £'000	Loss on Disposal £'000	Revaluation £'000	Value at 30 September 2019 £'000	Value at 30 September 2018 £'000
Investments in quoted companies	31,849	3,385	(4,975)	(326)	666	30,599	26,610
Other unquoted investments	8,869	2,297	(2,671)	(5)	39	8,529	6,328
Total investments at fair value through profit or loss	**40,718**	**5,682**	**(7,646)**	**(331)**	**705**	**39,128**	**32,938**

Investments in quoted companies have been valued according to the quoted share price as at 30 September 2019.

Investments in Other unquoted investments represent the following:

- MJ Hudson Convertible Bond that was issued on 4 November 2016, further investments in MJ Hudson Convertible Bond on 9 August 2017 and 30 September 2017 less the repayment in the period, these are valued at fair value, which approximates to cost plus rolled up premium interest. There has been no change in the circumstances of MJ Hudson that would indicate a material change in value since the investment was made;
- MJ Hudson Equity was purchased on 8 August 2017, it was recently revalued on June 2019 in respect to IPEV guidelines in the valuation of unlisted shares at the most recent fund raising involving third parties. There has been no change in circumstances of MJ Hudson since this fund raising that would indicate a material change in the value of the equity;
- Hanover Equity Partners II LP was purchased on 11 July 2017, it is valued based on the NAV of the fund which is a proxy for fair value as its underlying investments are held at fair value;
- Be Heard Group plc Bond was purchased on 28 November 2017, further investment in Be Heard Group plc Bond was made on 10 July 2019, these are valued at fair value which approximates to cost. There has been no change in the circumstances of Be Heard Group plc that would indicate a material change in value;
- Northbridge Convertible Bond was purchased on 10 April 2018 and 3 July 2018, they are valued at fair value which approximates cost plus the "in the money" value of the conversion right and has been valued using a Black Scholes valuation model; and
- The Lakes Distillery Company plc Convertible Bond was purchased on 20 June 2019, it is valued at fair value which approximates to cost plus rolled up premium interest.

The revaluations and the loss on disposal above are shown on the face of the statement of comprehensive income as gains on investments.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

5. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The following table analyses investment carried at fair value at the end of the period, by the level in the fair value hierarchy into which the fair value measurement is categorised. The different levels are defined as follows:

(i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

(iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

	30 September 2019 £'000	31 March 2019 £'000
Level 1	30,599	31,849
Level 2	–	–
Level 3	8,529	8,869
	39,128	40,718

During the period, there were no transfers between the levels in the Company's investments. For the year ended 31 March 2019, there was a transfer from Level 1 to Level 3 for Tax Systems plc which amounted to £1,994,168 (31 March 2018: no movements between levels).

6. DIVIDENDS

The Company paid £394,642 during the period which represents a final dividend for the year ended 31 March 2019. A final dividend for the year ended 31 March 2018 (£613,294) was paid in July 2018.

7. TAXATION

The Company has no tax charge for the six months ended 30 September 2019 (30 September 2018: £nil).

8. EARNINGS PER SHARE

	Six months to 30 September 2019 £'000	Six months to 30 September 2018 £'000	Year to 31 March 2019 £'000
Earnings			
Profit for the period	**142**	3,088	3,253
Number of shares ('000)			
Weighted average number of Ordinary Shares in issue for basic and diluted EPS	**3,555**	3,591	3,573
Earnings per share			
Basic and diluted earnings per share	**3.98p**	86.00p	91.06p

9. RELATED PARTY TRANSACTIONS

The related parties of Gresham House Strategic plc are its Directors, persons connected with its Directors and its Investment Manager.

Details of related party transactions between the Company and of non-salary related transactions involving Directors are detailed below.

During the half year to 30 September 2019, Gresham House Strategic plc was charged management fees of £427k (2018: £401k) by Gresham House Asset Management Limited (GHAM). As at 30 September 2019, management fees of £66k (2018: £68k) was due to GHAM.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

9. RELATED PARTY TRANSACTIONS (CONTINUED)

The Company has not made a provision for performance fees as at 30 September 2019. Under the terms of the Investment Management Agreement, the Company will pay the Investment Manager a performance fee in respect of each performance fee period in which the Net Asset Value per Ordinary Share on the last business day of such performance fee period exceeds both a compounding hurdle growth in Net Asset Value per share of 7% per annum (compounding weekly, the 'Hurdle Net Asset Value per share') and the highest Net Asset Value per share at which a performance fee was previously paid (the 'High Watermark'). The performance fee shall be calculated at a rate of 15% of the amount by which the Net Asset Value per share exceeds the High Watermark, multiplied by the time weighted number of shares in issue during such performance fee period, provided that the Performance Fee payable will be reduced to ensure that the Net Asset Value per share after the payment of such Performance Fee does not fall below the Hurdle Net Asset Value per share.

Up to 50% of any performance fee may (at the Board's discretion) be satisfied by the issue of Ordinary Shares.

The provision represents the Company's estimate of what would have been payable had the Net Asset Value per share as at 30 September 2019 been the Net Asset Value per share on 31 March 2020, being the next date on which a Performance Fee may become payable and is calculated with reference to the expected Hurdle Net Asset Value per share on 31 March 2020.

As at 30 September 2019, the following shareholders of the Company, that are related to GHAM, had the following interests in the issued shares of the Company:

A L Dalwood	33,381	Ordinary Shares
G Bird	22,651	Ordinary Shares
Gresham House Holdings Ltd	812,913	Ordinary Shares

The Company has signed a co-investment agreement with Gresham House Strategic Public Equity Fund LP (SPE Fund LP), a sister fund to the Company launched by Gresham House Asset Management Ltd (GHAM) on 15 August 2016. Under the agreement, the Company undertook to co-invest £7.5m with the SPE Fund LP.

There are no other related party transactions of which we are aware in the six months ended 30 September 2019.

10. SUBSEQUENT EVENTS NOTE

There were no material events after the statement of financial position date that have a bearing on the understanding of these unaudited condensed interim financial statements.

CORPORATE INFORMATION

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C R Berry
K Lever
H R Sinclair

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